Coachman Insurance Company 2003

ANNUAL REPORT

Coachman
INSURANCE COMPANY

Responsibility for Financial Statements

The consolidated financial statements are the responsibility of management and have been prepared in conformity with accounting principles generally accepted in Canada. In the opinion of management, the financial statements fairly reflect the financial position, results of operations and cash flows of Coachman Insurance Company (the Corporation) within reasonable limits of materiality.

Preparation of financial information is an integral part of management's broader responsibilities for the ongoing operations of the Corporation. Management maintains an extensive system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements.

An actuary has been appointed by the Corporation to carry out a valuation of the policy liabilities and to issue a report thereon to the shareholders and regulatory authorities. The valuation is carried out in accordance with accepted actuarial practice and common Canadian insurance regulatory requirements. The policy liabilities consist of a provision for unpaid claim and adjustment expenses on the earned portion of policies and of future obligations on the unearned portion of policies. In performing this valuation, the actuary makes assumptions as to future rates of claim frequency and severity, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Corporation and the nature of the insurance policies. The actuary also makes use of management information provided by the Corporation and the work of the external auditors in verifying the data used in the valuation.

The financial statements have been examined and approved by the Board of Directors. An Audit and Finance Committee, composed of members of the Board of Directors, meets periodically with financial officers of the Corporation and the external auditors. These external auditors have free access to this Committee, without management present, to discuss the results of their audit work and their opinion on the adequacy of internal financial controls and the quality of financial reporting.

KPMG have been appointed external auditors. Their responsibility is to report to the shareholders and regulatory authorities regarding the fairness of presentation of the Corporation's financial position and results of operations as shown in the consolidated financial statements. In carrying out their audit, the external auditors also make use of the work of the actuary and his report on the policy liabilities. The Auditors' Report outlines the scope of their examination and their opinion.

John Dobie
Director

Paul Christoff
Chief Financial Officer

February 13, 2004

Actuary's Report

To the Shareholders of Coachman Insurance Company

I have valued the policy liabilities of Coachman Insurance Company for its statement of financial position at December 31, 2003 and their change in the statement of operations and retained earnings for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion the amount of policy liabilities makes appropriate provision for all policyholder obligations, and the financial statements fairly present the results of the valuation.

February 13, 2004

Richard Gauthier
Fellow, Canadian Institute of Actuaries

Auditors' Report

To the Shareholders of Coachman Insurance Company

We have audited the statement of financial position of Coachman Insurance Company as at December 31, 2003 and the statements of operations and retained earnings (deficit) and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Regina, Canada

February 13, 2004

Statement of Financial Position

December 31	**2003**	2002
	(thousands of $)	
Assets		
Cash and treasury bills (note 3)	$ 6,297	$ 5,529
Accounts receivable (notes 4 & 15)	11,037	14,962
Deferred policy acquisition costs	1,689	942
Unpaid claims recoverable from reinsurers (notes 7 & 8)	17,776	14,825
Reinsurers' share of unearned premiums (note 7)	1,543	394
Future income taxes (note 10)	827	461
Investments (note 5)	48,444	36,926
Property, plant and equipment (note 6)	81	179
	$ 87,694	$ 74,218
Liabilities		
Accounts payable	$ 1,704	$ 1,364
Premium taxes payable	407	254
Future income taxes (note 10)	827	461
Amounts due to reinsurers (note 7)	2,475	510
Provision for unpaid claims (notes 8 & 15)	61,727	55,035
Unearned reinsurance commissions	30	–
Unearned premiums (note 15)	10,056	15,847
	77,226	73,471
Shareholders' equity		
Capital stock (note 11)	1,000	1,000
Contributed surplus (note 11)	25,600	16,200
Retained earnings (deficit)	(16,132)	(16,453)
	10,468	747
	$ 87,694	$ 74,218

Commitments (note 16)

(see accompanying notes)

Statement of Operations and Retained Earnings (Deficit)

year ended December 31	2003	2002
	(thousands of $)	
Gross premiums written	$ 24,294	$ 32,201
Net premiums written	$ 19,784	$ 28,556
Net premiums earned (note 7)	**$ 28,432**	$ 25,889
Claims incurred (notes 7 & 15)	24,979	34,169
Commissions	2,895	4,356
Premium taxes	951	853
Administrative expenses	2,470	2,749
Facility Association participation (note 15)	1,275	518
Total claims and expenses	**32,570**	42,645
Underwriting loss	**(4,138)**	(16,756)
Investment earnings (note 9)	4,466	2,551
Income (loss) before income taxes	**328**	(14,205)
Future income tax expense (note 10)	–	2,950
Capital taxes	7	14
Net income (loss)	**321**	(17,169)
Retained earnings (deficit), beginning of year	(16,453)	716
Retained earnings (deficit), end of year	**$ (16,132)**	$ (16,453)

(see accompanying notes)

Statement of Cash Flows

December 31	2003	2002
	(thousands of $)	
Cash provided by (used for):		
Operating activities		
Net income (loss)	$ 321	$ (17,169)
Non-cash items:		
Write-down of investments	–	84
Gain on disposal of investments	(1,813)	(25)
Amortization	392	275
Future income taxes	–	2,950
Change in non-cash operating items (note 12)	2,467	11,560
	1,367	(2,325)
Investing activities		
Purchase of investments	(96,286)	(99,380)
Proceeds on disposal of investments	85,703	101,524
Purchase of capital assets	–	(87)
	(10,583)	2,057
Financing activities		
Contributed surplus	**9,400**	2,700
Increase in cash and cash equivalents	**184**	2,432
Cash and cash equivalents:		
Balance, beginning of year	**2,535**	103
Balance, end of year	**2,719**	2,535
Plus treasury bills greater than 91 days to maturity from acquisition date	**3,578**	2,994
Cash and treasury bills per statement of financial position	**$ 6,297**	$ 5,529

Supplementary cash flow information:		
Income taxes recovered	**$ –**	$ 81

(see accompanying notes)

Notes to the Financial Statements

December 31, 2003

1. STATUS OF THE CORPORATION

Coachman Insurance Company (the "Corporation") was incorporated under the laws of Ontario on June 12, 1979. The Corporation holds an Ontario provincial insurers' licence under the *Ontario Insurance Act* and is licensed to conduct business in Ontario.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The following are considered to be significant:

Deferred policy acquisition costs

Premium taxes, commissions and certain underwriting and policy issuance costs are charged to expenses over the term of the insurance policies to which they relate. The method followed in determining the deferred policy acquisition costs limits the amount of the deferral to the amount recoverable from unearned premiums after giving consideration to investment income, as well as claim and adjustment expenses expected to be incurred as the premiums are earned.

Investments

Bonds are recorded at amortized cost. Treasury bills and common shares are recorded at cost. Dividends on common shares are recognized as income on their record dates. Gains and losses on the disposal of investments are taken into income on the date of trade. Investments are written down when there is a decline in value that is other than temporary.

Provision for unpaid claims

The provision for unpaid claims represents an estimate of the total cost of outstanding claims to the year-end date. Included in the estimate are reported claims, claims incurred but not reported and an estimate of adjustment expenses to be incurred on these claims. The provision is calculated without discounting. The estimates are necessarily subject to uncertainty and are selected from a range of possible outcomes. During the life of the claim, adjustments to the estimates are made as additional information becomes available. The change in outstanding losses plus paid losses is reported as claims incurred in the current period.

Premiums

Premiums written are recognized as revenue evenly over the terms of the related policies. Unearned premiums represent the portion of premiums written relating to the unexpired terms of policies in force.

Reinsurance ceded

Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as reductions of the respective income and expense accounts.

Unpaid claims recoverable from reinsurers are estimated in a manner consistent with the method used for determining the provision for unpaid claims.

Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated amortization. Amortization is recorded on a straight-line basis, commencing in the year in which the asset is placed in service, over the estimated useful lives of the assets as follows:

Computer hardware, system costs and other equipment	20 – $33^1/_3$%

Income taxes

The Corporation uses the asset and liability method of accounting for income taxes. Current income taxes are recognized as estimated income taxes payable for the current year. Future income tax assets and liabilities consist of temporary differences between tax and accounting bases of assets and liabilities as well as the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized. The effect on future tax assets and liabilities of a change in tax rates is recognized as income in the period that includes the date of enactment or substantive enactment. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized.

Cash and cash equivalents

Cash and cash equivalents in the statement of cash flows consist of cash on hand and treasury bills with a maturity of 91days or less from the date of acquisition.

3. CASH AND TREASURY BILLS

Cash and treasury bills include treasury bills and commercial paper that have an average effective interest rate of 2.8% (2002 – 2.9%) and an average remaining term to maturity of 96 days (2002 – 93 days).

4. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

	2003	2002
	(thousands of $)	
Financed premiums receivable	$ 4,028	$ 11,248
Due from reinsurers	2,513	1,395
Facility Association receivable	2,334	656
Due from self-insured retentions	1,275	1,285
Accrued investment income	404	332
Other	264	46
Due from brokers	219	-
Total accounts receivable	$ 11,037	$ 14,962

5. INVESTMENTS

The carrying value and fair value of the Corporation's investments are as follows:

	2003		2002	
	(thousands of $)			
	Carrying Value	Fair Value	Carrying Value	Fair Value
Bonds and debentures	$ 48,444	$ 48,955	$ 33,148	$ 33,902
Common shares	–	–	3,778	4,062
Total investments	$ 48,444	$ 48,955	$ 36,926	$ 37,964

Details of significant terms and conditions, exposures to interest rate and credit risks of investments are as follows:

(i) Bonds and debentures:

The carrying value and average effective interest rates are shown below by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties. The carrying values are essentially the same as the principal values and therefore the average effective rates are not materially different from the coupon rates. Interest is generally payable on a semi-annual basis.

	2003		2002	
	(thousands of $)			
Term to maturity (years)	Carrying Value	Average Effective Rates	Carrying Value	Average Effective Rates
Government of Canada:				
One or less	$ 50	6.5%	$ –	–
After one through five	10,297	3.8%	8,750	4.3%
After five	16,580	5.1%	8,157	5.5%
Canadian provincial and municipal:				
After one through five	4,306	5.9%	2,740	6.2%
After five	6,838	5.8%	5,128	5.7%
Canadian corporate:				
After one through five	5,431	5.0%	5,108	6.1%
After five	4,942	5.7%	3,265	6.2%
Total bonds and debentures	$ 48,444		$ 33,148	

Investments with a carrying value of $50,000 are on deposit with regulatory authorities as at Dec. 31, 2003. Investments with a carrying value of $650,000 are on deposit with a bank for a loan facility with respect to overdraft protection.

(ii) Common shares:

Common shares have no fixed maturity dates and are generally not exposed to interest rate risk. Dividends are generally declared on an annual basis. During 2003 the Corporation sold all of its common share holdings in the normal course of business.

6. PROPERTY, PLANT AND EQUIPMENT

The components of the Corporation's investment in property, plant and equipment, as well as related amortization is as follows:

	2003			2002
	(thousands of $)			
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer hardware, system costs and other equipment	$ 745	$ 664	$ 81	$ 179

Amortization for the year is $98,000 (2002 - $105,000).

7. REINSURANCE CEDED

The Corporation has reinsurance treaties with SGI CANADA and other third party reinsurers, which limits the liability of the Corporation to a maximum amount on any one loss as follows:

	2003	2002
	(thousands of $)	
General liability and property	$ 150	$ 250
Automobile	250	250
Catastrophe	250	250

The following table sets out the amount by which reinsurance ceded has reduced the premiums earned and claims incurred:

	2003	2002
	(thousands of $)	
Premiums earned	$ 2,995	$ 3,645
Claims incurred	6,693	15,201

8. PROVISION FOR UNPAID CLAIMS

(i) Nature and variability of unpaid claims:

The establishment of the provision for unpaid claims is based on known facts and interpretation of circumstances and is therefore a complex process influenced by a large variety of factors. Measurement of the provision is uncertain due to claims that are not reported to the Corporation at the year-end date and therefore estimates are made as to the value of these claims. As well, uncertainty exists for reported claims that have not been settled, as all the necessary information may not be available at the statement of financial position date.

Factors used to estimate the provision include: the Corporation's experience with similar cases, historical trends involving claim payments, the characteristics of the class of business, claim severity and claim frequency, the effect of inflation on future claim settlement costs, court decisions and economic conditions. Time is also a critical factor in determining the provision, since the longer it takes to settle and pay a claim the more variable the ultimate settlement amount will be. Accordingly, short-tail claims such as physical damage or collision claims tend to be more reasonably predictable than long-tail claims such as liability claims.

As a result, the establishment of the provision for unpaid claims relies on a number of factors and on the judgment and opinions of a large number of individuals, which necessarily involves risk that the actual results may differ materially from the estimates.

Changes in the estimates for the provision for unpaid claims are as follows:

	2003	2002
	(thousands of $)	
Net unpaid claims – beginning of year	$ 40,210	$ 29,775
Provision for self-insured retention	(1,285)	(705)
Payments made during the year relating to prior year claims	(13,190)	(13,094)
Deficiency (excess) relating to prior year estimated unpaid claims	2,370	7,368
Net unpaid claims for claims of prior years	28,105	23,344
Provision for claims occurring in the current year	14,571	15,581
Provision for self-insured retention	1,275	1,285
Net unpaid claims – end of year	$ 43,951	$ 40,210

(ii) Type of unpaid claims:

The provision for unpaid claims is summarized by type of claim as follows:

	2003			2002		
	(thousands of $)					
	Gross	Reinsurance Recoverable	Net	Gross	Reinsurance Recoverable	Net
Automobile	$ 59,911	$ 17,671	$ 42,240	$ 53,558	$ 14,633	$ 38,925
Property	415	105	310	192	192	-
Liability	126	-	126	-	-	-
Self-insured retention	1,275	-	1,275	1,285	-	1,285
Total	$ 61,727	$ 17,776	$ 43,951	$ 55,035	$ 14,825	$ 40,210

(iii) Self-insured retention:

The provision for self-insured retention represents unpaid claim reserves associated with insurance policies where the insured is retaining the insurance risk. The Corporation holds security in the form of deposits in custodial accounts to guarantee the reserves associated with the self-insured retention policies.

(iv) Structured settlements:

During the normal course of settling insurance claims, the Corporation has purchased an annuity from a life insurance company to make fixed payments to a claimant of the Corporation. There are no rights under the non-commutable, non-assignable, non-transferable contract that would provide for any current or future benefit to the Corporation. The Corporation remains liable only in the event that the life insurance company fails to make payments to the Corporation's claimant. As at Dec. 31, 2003, no information has come to the Corporation's attention that would suggest any weakness or failure in the life insurance company from which it has purchased the annuity. Consequently, no provision for the credit risk is required. The net present value of these expected payments as of the statement of financial position date total $676,000 (2002 - $718,000).

9. INVESTMENT EARNINGS

The components of investment earnings are as follows:

	2003	2002
	(thousands of $)	
Interest and dividends	$ 2,251	$ 1,809
Realized gain on sale of investments	1,813	25
Income from financing	402	801
Investment write down	–	(84)
Total investment earnings	$ 4,466	$ 2,551

The 2002 investment write down relates to Canadian common shares.

10. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates to income before income taxes. The reasons for the differences are as follows:

	2003	2002
	(thousands of $)	
Net income (loss) before income taxes	$ 328	$ (14,205)
Combined federal and provincial tax rate	36.62%	38.62%
Computed tax expense based on combined rate	$ 120	$ (5,486)
Increase (decrease) resulting from:		
Investment earnings not subject to taxation	(22)	(124)
Adjustment to future tax assets for enacted changes in tax laws and rates related to non-capital losses	1,458	2,060
Adjustment to future tax assets and liabilities for enacted changes in tax laws and rates	(365)	(635)
Valuation allowance	(1,218)	7,140
Other	27	(5)
Total income tax expense	$ –	$ 2,950

The components of future income tax balances are as follows:

	2003	2002
	(thousands of $)	
Tax loss carryforward	$ 7,963	$ 6,505
Provision for unpaid claims	1,192	979
Other	30	117
	9,185	7,601
less: valuation allowance	(8,358)	(7,140)
Future income tax assets	827	461
Bonds and debentures	506	182
Unpaid claims recoverable from reinsurers	321	274
Other	–	5
Future income tax liabilities	827	461
Net future income taxes	$ –	$ –

The Corporation has non-capital loss carryforwards of approximately $22,045,000 (2002 - $23,156,000) that expire on dates ranging from 2007 to 2009.

11. SHARE CAPITAL AND CONTRIBUTED SURPLUS

The Corporation is authorized to issue 10,000 common shares. At the end of 2003 there are 10,000 (2002 – 10,000) common shares issued. In March 2003, the Corporation's parent, SCISL, contributed $9,400,000 (2002 - $2,700,000) in cash, which is reflected as contributed surplus on the statement of financial position.

12. CASH FLOWS

The change in non-cash operating items is comprised of the following:

	2003	2002
	(thousands of $)	
Change in non-cash operating items:		
Accounts receivable	$ 3,925	$ (3,553)
Deferred policy acquisition costs	(747)	806
Unpaid claims recoverable from reinsurers	(2,951)	(11,031)
Reinsurers' share of unearned premiums	(1,149)	-
Accounts payable	340	333
Premium taxes payable	153	145
Amounts due to reinsurers	1,965	510
Provision for unpaid claims	6,692	21,466
Unearned reinsurance commissions	30	-
Unearned premiums	(5,791)	2,884
	$ 2,467	$ 11,560

13. FAIR VALUE

The following method and assumptions were used to estimate the fair value of each class of financial instrument:

(i) For the following financial instruments the carrying amounts approximate fair value due to the immediate or short-term nature of these financial instruments:

(a) accounts receivable
(b) due from Facility Association
(c) cash and treasury bills
(d) accounts payable
(e) amounts due to reinsurers
(f) other taxes payable

(ii) For bonds and debentures, common and preferred shares, the fair values are considered to approximate quoted market values on recognized stock exchanges based on the latest bid prices.

(iii) Provision for unpaid claims and unpaid claims recoverable from reinsurers.

The fair value of the provision for unpaid claims and unpaid claims recoverable from reinsurers has been omitted because it is not practicable to determine fair value with sufficient reliability (note 8).

14. RELATED PARTY TRANSACTIONS

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties"). Transactions and amounts outstanding at year end are as follows:

Category	**2003**	2002
	(thousands of $)	
Investments	$ 463	$ 565
Accounts receivable	2	2
Accounts payable	37	-
Investment earnings	47	32

SGI CANADA provides management and administrative services to the Corporation as well as being the reinsurer (note 7). Administrative expenses incurred by SGI CANADA and charged to the Corporation were $531,000 (2002 - $0) and accounts payable are $322,000 (2002 - $0).

In 2003, the Corporation entered into an agreement with SGI CANADA, the Corporation's ultimate majority shareholder, whereby SGI CANADA would transfer to the Corporation, net amounts recoverable after Dec. 31, 2002, on reinsurance for adverse loss development on Coachman losses occuring prior to April 30, 2001. The Corporation will reimburse SGI CANADA for any costs it may incur under the reinsurance contract. At Dec. 31, 2003, $1,945,000 was accrued under this reinsurance policy and has reduced claims incurred.

Other related party transactions are disclosed separately in the notes to the financial statements.

15. FACILITY ASSOCIATION

The Corporation is a participant in various risk sharing pools whereby most companies in the industry share resources to provide insurance for high risks.

Facility Association transactions recorded in the Corporation's financial results are as follows:

	2003	2002
	(thousands of $)	
Gross premiums written	$ 2,733	$ 914
Net premiums written	$ 2,733	$ 914
Net premiums earned	$ 1,807	$ 697
Claims incurred	2,659	1,035
Commissions	134	36
Premium taxes	54	28
Administrative expenses	291	169
Total claims and expenses	3,138	1,268
Underwriting loss	(1,331)	(571)
Investment earnings	56	53
Net loss	$ (1,275)	$ (518)
Facility Association receivable	$ 2,334	$ 656
Unearned premiums	1,223	297
Provision for unpaid claims	3,071	1,490

16. COMMITMENTS

The Corporation has a lease with one of its directors for its office premises expiring Dec. 31, 2008, at an annual rent of $180,000. On Jan. 15, 2004, the lease was transferred to an independent party with no change in lease terms.

17. COMPARATIVE FINANCIAL INFORMATION

For comparative purposes, certain 2002 balances have been reclassified to conform to 2003 financial statement presentation.

Coachman
INSURANCE COMPANY